HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Edmonton CMA

Canada Mortgage and Housing Corporation

Date Released: Fall 2007

New Home Market

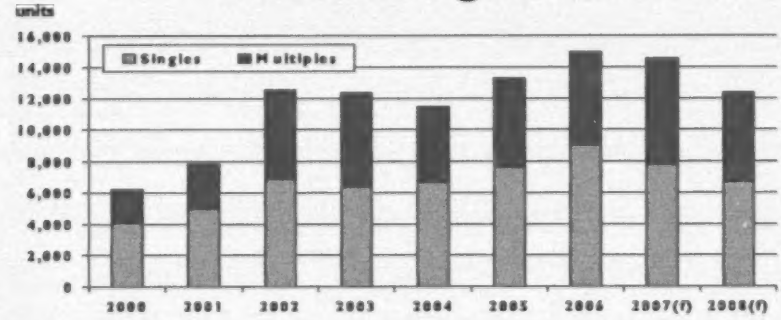
New Home Construction to Moderate

The Edmonton Region's residential construction industry has been experiencing a strong boom in recent years fueled by high in-migration, robust job creation and a severe shortage of existing homes for sale. However, housing market conditions have changed since the spring of 2007 and builders will adjust their output accordingly. Despite a continued strong economy which has generated tens of thousands of new jobs, lower levels of net migration into the province this year combined with soaring new house prices has undermined demand for new homes. In addition, resale inventories have climbed to record levels during the summer months, putting an end to accelerating prices and creating a market balance which favors the buyer.

To the end of August, total housing starts were relatively close to last year's pace, with multi-family units

Figure 1

Total Housing Starts



Source: CMHC, CMHC Forecast

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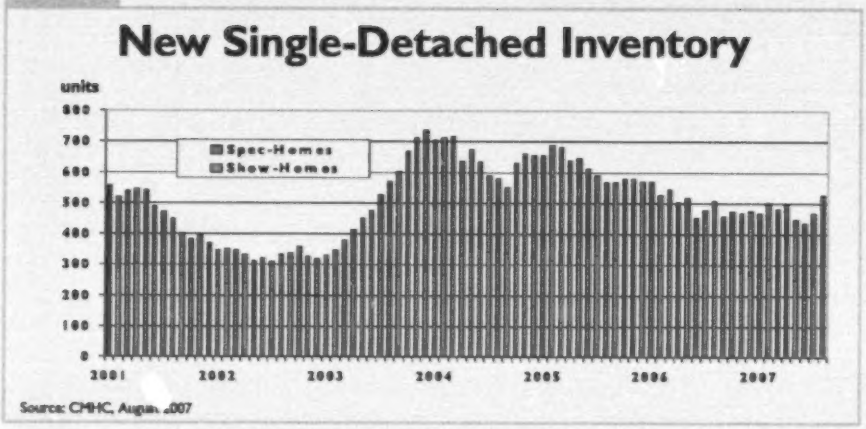
Figure 2



Source: CMHC, August 2007

countering a weaker performance so far this year by single-detached builders. Look for total starts in 2007 to again exceed 14,000 units but fall short of 2006's performance which was the second best on record. Concerns over rising inventories in both the new and existing market will undermine activity in the second half of this year and the early months of 2008. Next year, total starts will experience further declines to around 12,400 units, representing a drop of close to 15 per cent from this year and the lowest output since 2004.

Fewer Single-Detached Starts in 2008

Following a record performance in 2006, single-detached home builders will start fewer homes this year with further reductions on the horizon in 2008. To the end of August, single starts across the region have declined by nine per cent from the same time last year and have fallen in seven of the past eight months in 2007. CMHC expects the slowdown to intensify in the months ahead as builders retrench to combat a looming inventory run-up. Prospective buyers are becoming harder to find as they react to surging new house prices and an improved inventory of resale homes available in the Edmonton area. Single starts are expected to end the year near 7,800 units, representing a 14 per cent drop but still the second-best year on record. In 2008, activity levels will be slow to recover, as builders watch for new and resale inventories to turn the corner. Look for production to end the year around the 6,700 unit mark, representing another 14 per cent decline from 2007 and the lowest number started since 2004.

Despite the slowdown in single starts this year, units under construction remained at record levels this summer. Completions continue to be outpaced by starts to the end of August, but this will change in the months ahead as completions ramp up. August's new home inventories remained low by historic standards but represented a 3.5 per cent increase from the same month last year and also the first year-over-year increase in inventory (including show homes) since September 2005. Furthermore, the number of spec units was up by 44 per cent year-over-year in August and represented the highest volume of specs since May 2005. The number of completed and unoccupied units should rise in the months ahead considering the large quantity of homes under construction and the substantial increase in resale inventory on the market this summer. As noted, this rising inventory will put additional downward pressure on starts going forward.

Table 1
New Single-Family Absorptions by Area
January - August (% chg 2006/2007)

	Absorptions			Average Price ($)		
	2006	2007	% chg	2006	2007	% chg
North Central	55	46	-16.4	395,611	525,778	32.9
Northeast	498	488	-2.0	264,551	361,069	36.5
Northwest	539	343	-36.4	279,285	391,203	40.1
South Central	36	31	-13.9	409,347	590,548	44.3
Southeast	523	497	-5.0	269,626	469,475	74.1
Southwest	1,027	941	-8.4	311,414	408,847	31.3
West	415	437	5.3	295,079	436,239	47.8
Total Edmonton City	3,093	2,783	-10.0	291,649	417,353	43.1
Fort Saskatchewan City	102	112	9.8	295,501	474,421	41.2
Leduc City	112	189	68.8	265,087	358,813	35.4
Parkland County	84	187	122.6	304,950	351,352	15.2
Spruce Grove City	190	291	53.2	232,794	275,823	18.5
St. Albert City	202	176	-12.9	370,470	623,854	68.4
Stony Plain Town	70	116	65.7	256,819	301,822	17.5
Strathcona County	376	461	22.6	337,080	536,861	59.3
Total Rural Municipalities	1,590	2,090	31.4	296,479	421,084	42.0
Grand Total	4,683	4,873	4.1	293,289	418,954	42.8

Source: CMHC

New House Prices Remain on Upswing

New house prices, as measured through CMHC's monthly market absorption survey, have increased substantially during the first eight months of 2007. Compared with the period January to August 2006, a typical single-detached home absorbed for an average price of $418,954, representing a year-over-year increase of 43 per cent. Higher costs for a wide array of inputs including land and labour have been responsible for much of these gains. Statistics Canada's New House Price Index (NHPI) for Edmonton suggests these high price increases will continue in the months ahead since absorbed average prices measured this fall were in many cases homes negotiated and priced before construction began. As such, prices set today will be measured in our absorption survey 9-12 months from now. While negotiated prices will be under pressure this fall due to a more competitive market place, these price moderations will likely not be captured in our survey until the summer and fall of 2008.

Fewer Multiple Dwelling Starts in 2008

On a year-to-date basis, total multiple dwelling starts in the CMA were 17 per cent ahead of last year's production to the end of August. While semi-detached and apartment starts have largely kept pace with last year's performance after eight months, row (townhouse) starts have more than doubled. Thanks to sustained demand for higher-density homes, which enjoy a price advantage over single-detached housing, total multi-family starts will reach 6,750 units this year. This represents the best performance for multiple unit development throughout the region since 1982. In 2008, total starts will throttle back to 5,700 units due to an increase in new unit inventories. However, construction activity will still approach the volumes achieved in 2005 and 2006.

While multi-family inventories across Metro were down from last August by a wide margin, units under construction were up by 20 per cent from this time last year. Look for some inventory replenishment to occur in the fourth quarter as completions ramp up. Condo resale inventories are also substantially higher this summer, compared with this time last year, and developers will have to contend with the added competition from these existing units as well. This will put downward pressure on starts in the months ahead.

Condominiums will remain the dominant component of multiple unit construction in 2008 although some additional rental units will be added to the mix. While the majority of new condos absorbed last year for prices under $200,000, price ranges have shifted upward this year. During the first eight months of 2007, units priced under $200,000 saw their market share tumble while units priced between $200,000 and $400,000 accounted for the lion's share of absorptions. Rental starts will remain relatively modest next year due to the high costs of construction and the resultant gap between economic and market rents. As noted below, rental rates will experience strong upward pressure over the forecast period, but will largely remain below the levels required to cover the cost of creating new units.

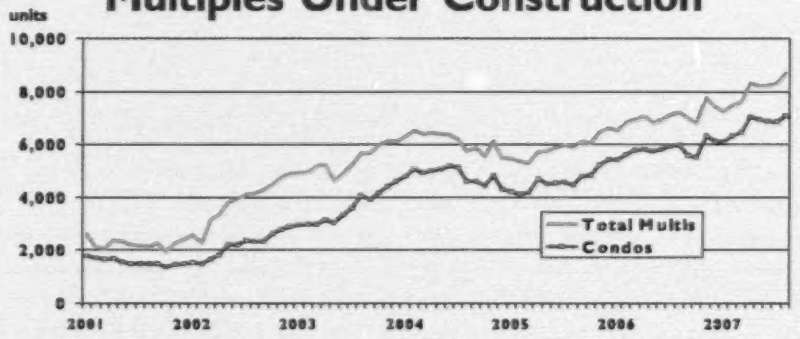
Resale Market

Existing Home Sales Falter in Second Half of 2007

Last year will stand as the peak year in the cycle for sales of existing homes in Edmonton and we anticipate further weakness in 2008, although activity levels next year will

Figure 3

Multiples Under Construction



Source: CMHC, August 2007

still exceed those set in 2005 by a wide margin. Residential sales after eight months in 2007 remained ahead of last year's record-setting pace by 3.5 per cent. However, sales fell by a wide margin year-over-year in both July and August erasing a considerable edge over 2006 that existed at mid year. We expect this weakness to persist during the final months of 2007, resulting in longer listing periods and a more competitive market place for sellers this fall. Inventory levels have soared this summer for all property types due to dramatic increase in new listings and faltering sales. After eight months of 2007, new listings were two-thirds higher than the number of homes for sale on the MLS® during January to August last year.

Resale prices accelerated at a brisk pace during the first five months of 2007, but improved supplies have put a brake on price gains since June. Monthly average prices will move sideways at best for the balance of the year, with many vendors forced to reduce their list prices to entice a sale. This should also discourage new listings in the months ahead, allowing the market to reach a more balanced position in the new year. Price growth will moderate to between five and 10 per cent in 2008, representing an increase of around $20,000 above this year's average price of $340,000.

Table 2
MLS SALES - SINGLE-DETACHED UNITS
January - August (% chg 2006/2007)

	Sales			Average Price ($)		
	2006	2007	% chg	2006	2007	% chg
Northwest	330	304	-7.9	244,129	360,298	47.6
North Central	1,564	1,272	-18.7	268,438	399,536	48.8
Northeast	482	409	-15.1	227,549	334,925	47.2
Central	498	376	-24.5	178,241	279,485	56.8
West	813	773	-4.9	334,442	488,025	45.9
Southwest	1,246	1,084	-13.0	377,957	528,049	39.7
Southeast	1,395	1,304	-6.5	271,331	403,112	48.6
St. Albert	768	624	-18.8	326,212	487,029	49.3
Sherwood Park	629	586	-6.8	333,150	466,456	40.0
Leduc	176	244	38.6	251,771	376,992	49.7
Spruce Grove	304	252	-17.1	262,037	386,618	47.5
Stony Plain	175	148	-15.4	259,137	383,348	47.9
Ft. Saskatchewan	148	171	15.5	277,368	410,442	48.0
All EREB areas	**9,849**	**9,058**	**-8.0**	**278,920**	**403,658**	**44.7**

Source: Realtors Assoc. of Edmonton

Single-Detached Sales Pull Back

Despite an overall improvement in residential sales so far this year, single-detached sales have faltered since the beginning of the second quarter, with some buyers shifting to lower-priced condominiums and townhouses. To the end of August, single-detached home sales had dropped by eight per cent from last year's record-setting pace.

Rapid year-over-year price gains of 50 per cent in the first half of this year have taken their toll on demand and this price growth rate won't be sustained during the balance of 2007 as inventories have escalated in recent months. New listings in the first eight months were 46 per cent higher than the number of houses brought to market during the same time last year. With sales slumping in recent months, active listings at the end of August were up by over 260 per cent. As such, the sales-to-active listings ratio has tumbled from levels associated with a strong sellers' market this spring to a range that typically benefits the buyer. While a more balanced market is anticipated in the new year, a record number of new houses under construction this summer will prevent a considerable drop in resale inventories in the months head. Many new home buyers will have to sell their existing homes and this should keep resale inventories from substantially declining until new house supplies taper off.

Figure 4

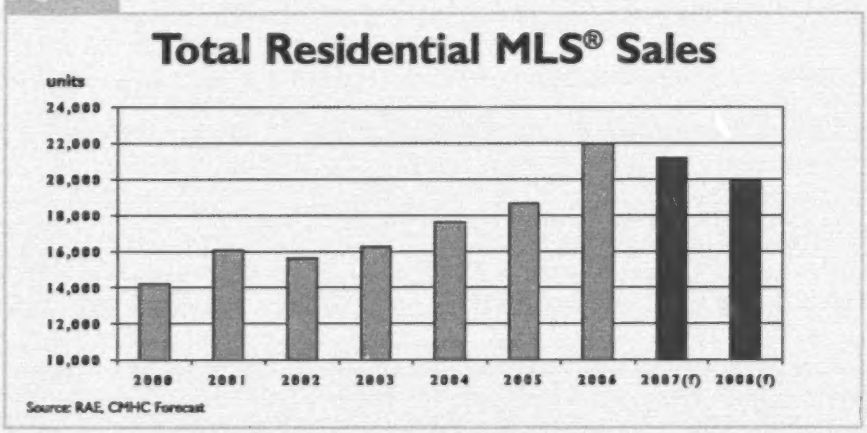
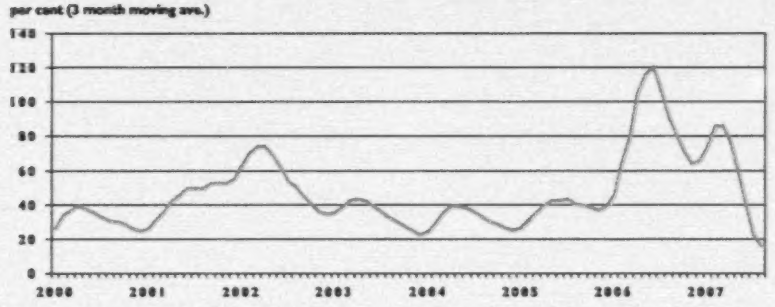


Figure 5

Sales-to-Active Listings Ratio



Source: RAE, August 2007

Improved Supplies of Resale Condominiums

Condominium sales increased across the region by 25 per cent over the first eight months of 2006, as many prospective buyers looked to this market segment for housing priced below $250,000. The increase in sales this year has been aided by a rapid improvement in supply and the soaring price of single-detached units. New condo listings more than doubled the number brought to market during January to August 2006 and active listings jumped from 434 units in August of last year to 3,126 units in August 2007. Improvements in supply have caused some moderation in month-over-month price growth during the third quarter, but overall prices were still 50 per cent higher on a year-to-date basis to the end of August. However, the price acceleration witnessed during the first half of this year will not occur in the latter months of 2007 now that the market balance has moved in the buyer's favour.

Rental Market

Market Remains Tight in 2008

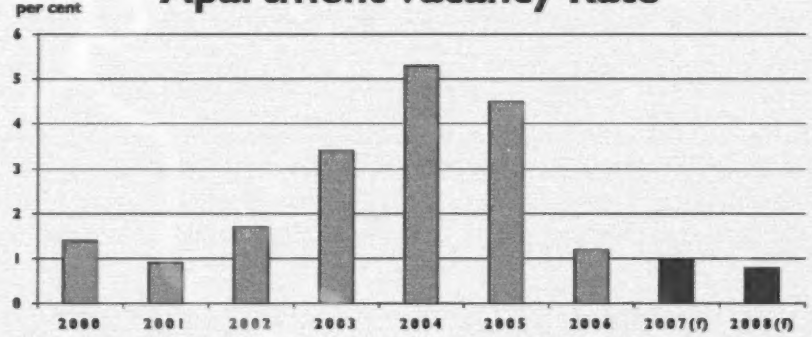
The apartment vacancy rate in Edmonton dipped slightly to 1.1 per cent in April 2007 compared with a vacancy rate of 1.2 per cent in October 2006. This spring's CMHC survey results represented the lowest vacancy rate since 2001. In past April surveys, which were discontinued after 1996, CMHC noted there was a slight seasonality to the Edmonton vacancy rate.

Typically, there was either an increase in the April survey or a slowing in the rate of decline, followed by a tightening of the market in October. Much of this has been attributed to the influence of post-secondary students and migratory workers who leave the city during the spring and summer months but return again in the fall. CMHC expects Edmonton's vacancy rate to decline to 1.0 per cent by this October due to sustained demand and a shortage of new purpose-built rental units entering the market. Further tightening to the 0.8 per cent level is anticipated by October 2008 due to a limited supply of new rental completions.

Additional new units are being added to the rental market by investors buying new and existing condominiums and renting them out. This trend will be verified in CMHC's second annual condominium rental survey to be released later this year. At the same time, our semi-annual rental market survey should also confirm that an offsetting number of units are being lost to the rental market as condo converters sell the apartments as affordable homeownership units.

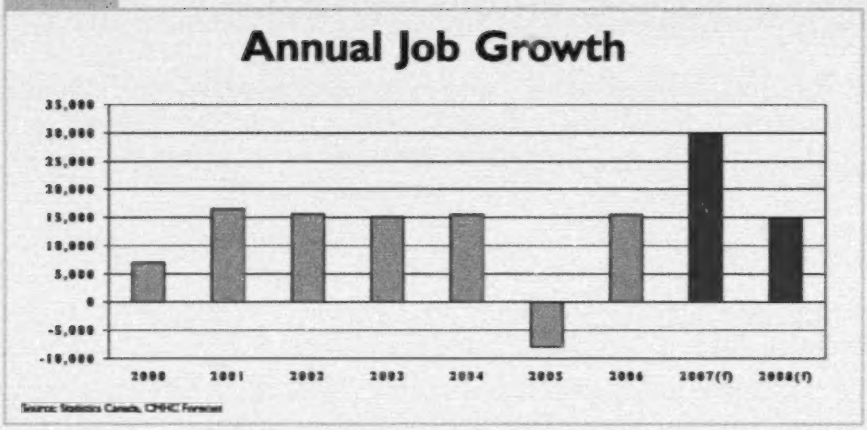
Figure 6

Apartment Vacancy Rate



Source: CMHC, CMHC Forecast

Figure 7



In CMHC's April 2007 survey, the rent for a typical two-bedroom apartment in Edmonton increased by $69 per month from last October to a Metro-wide average of $877. This compares with a $76 year-over-year increase in the average rent for a two-bedroom apartment reported between October 2006 and the October 2005 survey. This October, we expect a two-bedroom apartment to rent for close to $950 on average, representing a $142/month rise year-over-year. Sustained low vacancies should result in a further increase to around $1,090 by October 2008.

Economic Overview

Economy Remains Hot in 2008

The Edmonton Region's robust economic expansion will remain intact over the forecast period and continue to support demand for both new and existing housing. Job creation has been outstanding this year and this has fuelled strong income growth and robust retail sales. Unemployment will remain low thanks to a sustained expansion in the energy sector both within the region and throughout the northern half of the province. This will encourage continued in-migration into the CMA, albeit at a lower pace than in 2006, and Edmonton's population growth will still be the envy of most cities in Canada.

Over $50 billion worth of investment in oil sands related projects have either begun construction across the Capital region or are planned within this decade. As world oil prices are expected to remain elevated, development of these projects should continue despite recent concerns about possible changes to royalty rates and environmental policies causing added uncertainty for investors. Government-funded infrastructure projects such as the Edmonton ring road and LRT extension will also bolster spending on non-residential construction. These projects will create thousands of jobs but will also put sustained upward pressure on input costs such as concrete, steel, asphalt, and aggregate. As such, despite softer demand across North America for lumber and OSB, many of the home building industry's inputs, including construction labour, will continue to experience upward price pressure.

While the overall economic outlook remains very positive, some areas of weakness persist. Low natural gas prices have reduced drilling activity across the province and the region's well servicing industries have been experiencing a slowdown. This will also spill over into the region's manufacturing sector, although capital expenditure in oil sands related ventures will counter some of these negative impacts. Overall job creation across Metro is expected to slow in 2008 to around 2.5 per cent compared with this year's robust growth of over five per cent.

Mortgage Rate Outlook

Mortgage rates are expected to remain flat through the end of 2007. While still low by historical norms, mortgage rates are expected to rise gradually by 25-50 basis points in 2008. The one year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.75-7.75 per cent range in 2008.

Forcast Summary Edmonton CMA Fall 2007							
	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	17,652	18,634	21,984	21,200	-3.6	20,000	-5.7
MLS® New Listings	26,268	25,820	25,393	38,000	49.6	29,000	-23.7
MLS® Average Price ($)	179,610	193,934	250,915	340,000	35.5	360,000	5.9
New Home Market							
Starts:							
Single-Detached	6,614	7,623	9,064	7,800	-13.9	6,700	-14.1
Multiples	4,874	5,671	5,906	6,750	14.3	5,700	-15.6
Starts - Total	11,488	13,294	14,970	14,550	-2.8	12,400	-14.8
Average Price ($):							
Single-Detached	242,171	268,252	308,726	440,000	42.5	500,000	13.6
Median Price ($):							
Single-Detached	222,500	248,300	282,500	400,000	41.6	450,000	12.5
New Housing Price Index (% chg.)	4.3	6.5	28.9	32.4	32.4	10.6	10.6
Rental Market							
October Vacancy Rate (%)	5.3	4.5	1.2	1.0	-	0.8	-
Two-bedroom Average Rent (October) ($)	730	732	808	950	17.6	1,090	14.7
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.86	-	7.19	-
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	7.02	-	7.41	-
Annual Employment Level	553,800	545,800	561,300	591,300	5.3	606,300	2.5
Employment Growth (%)	2.9	-1.4	2.8	5.3	-	2.5	-
Unemployment rate (%)	4.8	4.5	3.9	3.8	-	4.0	-
Net Migration	5,960	13,771	21,080	19,000	-9.9	15,500	-18.4

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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